



The Real Estate TRENDS

SEPTEMBER 30
1957

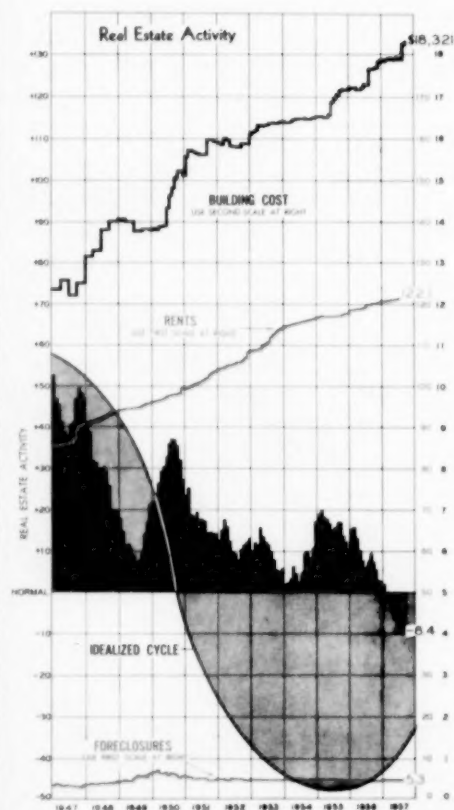
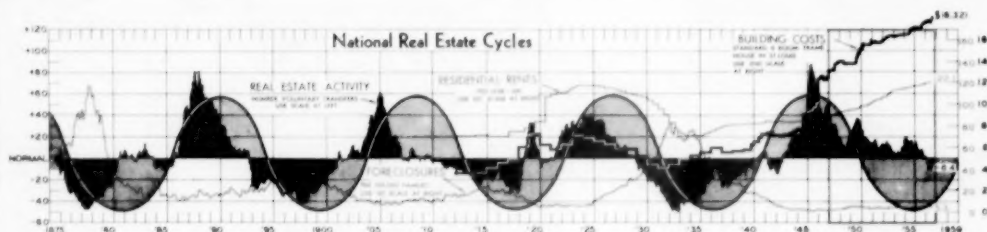
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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS



THE long chart above and the large insert to the left show that real estate activity has continued below our long-term normal since it first fell below in March of this year.

It will be interesting to see if real estate activity can climb above normal any time in the near future. In the past, when it has fallen below our normal line as definitely as it has now, after an extended real estate boom, it has not climbed above for a considerable period of years. If it stays below, it will indicate that the real estate broker should prune his organization to the real producers. The advantage of having part-time salesmen is past.

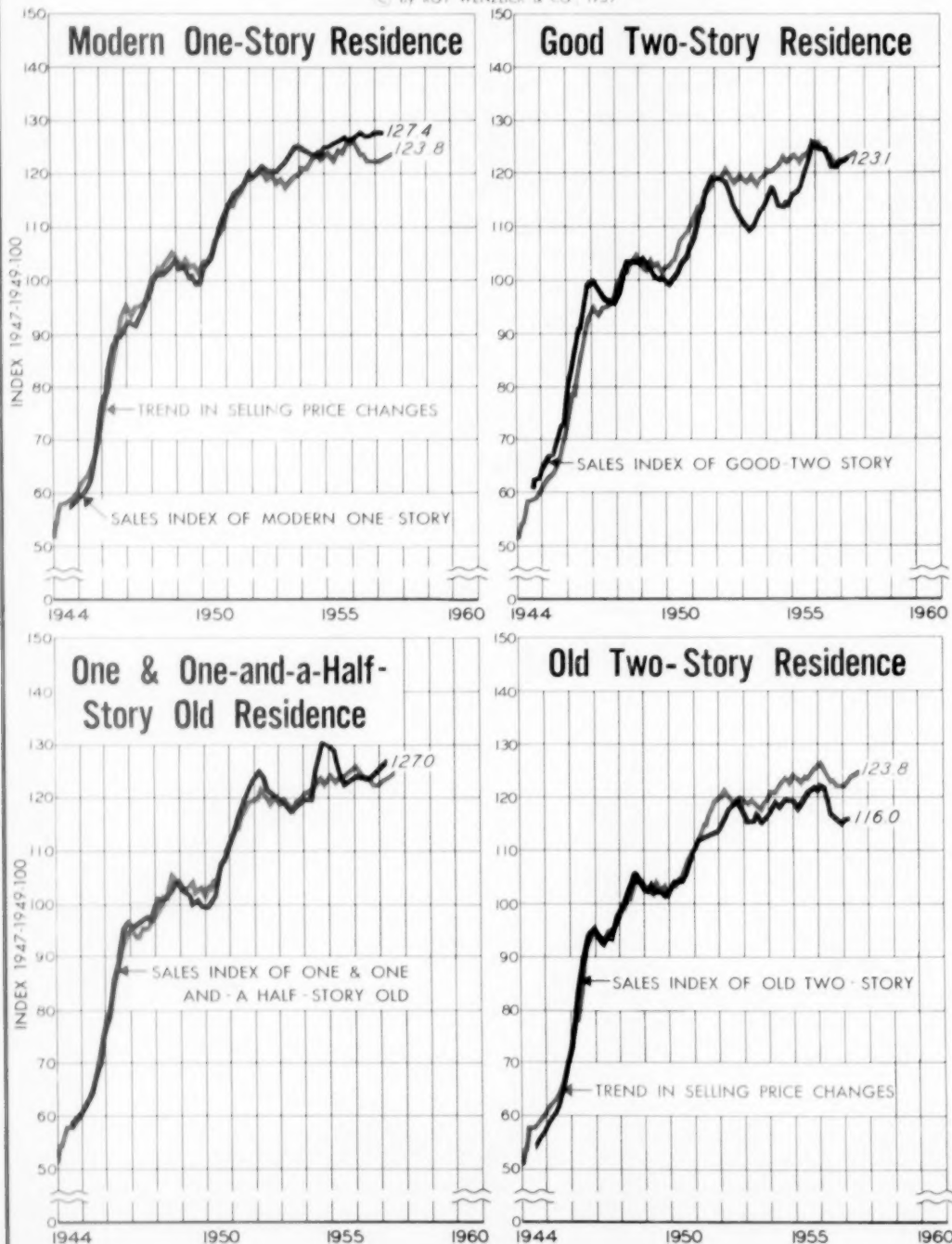
Real estate activity, as charted here, is the relationship of the number of voluntary transfers of real estate in the principal cities of the United States to the number of families in these cities. The figures are charted as deviations from a long-term normal.

The building cost line on these charts shows that the cost of building our standard 6-room frame house has

TREND IN SELLING PRICE CHANGES

FOUR TYPES OF RESIDENCE

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increased again, bringing it to an all-time high. In September 1957 the cost of building this house was \$18,321 in comparison with \$17,706 in September 1956, and \$17,192 in September 1955. Most of the increase in building costs was in labor.

The increase in building costs, coming at a time when building volume has been dropping, makes it harder to stimulate the market for new home building. It is relatively easy to raise prices without diminishing volume in a market where demand is increasing. It is much more difficult to maintain volume with rising prices when demand is slackening. The marginal high-cost producer is going to experience considerable trouble in the period ahead, giving his share of the business to the low-cost producer.

The charts to the left show the changes in selling prices from 1944 to the present for four types of single-family residential buildings. Only buildings which have been sold at least once previously are compiled in these charts. None of them is new.

The modern 1-story residence is still practically at its peak, showing no tendency as yet to drop. The good 2-story residence might be defined as a 2-story building which was well designed. It may be a rather old building, but it is one which still has a definite architectural style and charm. This type of building hit its peak in the latter part of 1955, dropped during the greater part of 1956, but has shown some recovery since then. With the exception of a period of about a year and a half, it is higher than it has been in any other previous time.

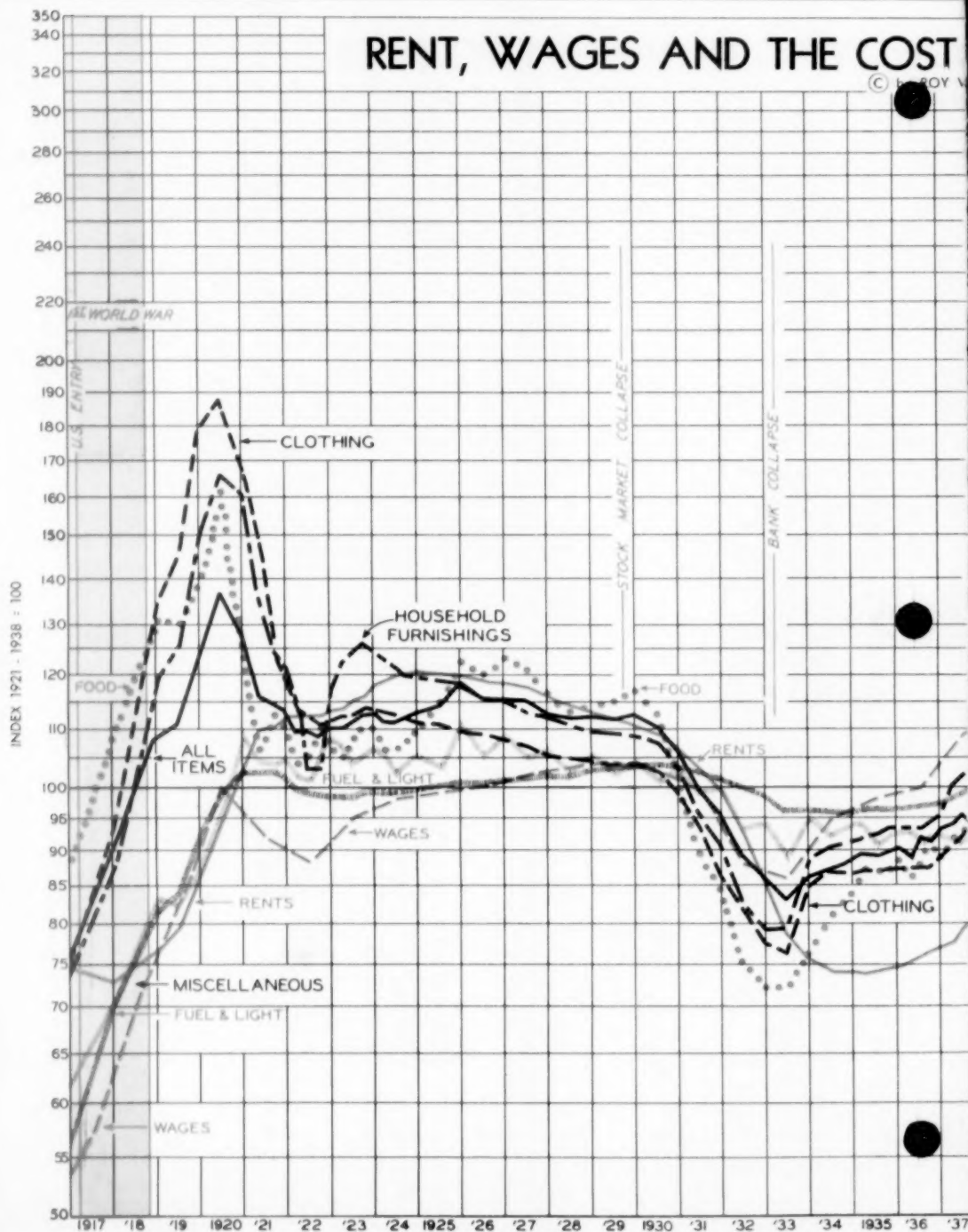
The 1- and 1½-story old residence includes bungalows and cottages with an architectural style which is now, more or less, obsolete. These buildings hit their peak in the latter part of 1954, dropped during 1955, but have since shown some recovery, until they are now selling for a higher figure than they brought in 1952 and in preceding years.

The old 2-story residence, as used in this study, is definitely dated and obsolete. It may provide perfectly good housing, but it doesn't have the charm or prestige of a building with good architecture. Its selling price, in relationship to 1947-49, is lower than any of the other three types of property, and it has made less recovery in the recent past.

The spread on the following pages shows rent, wages, and the cost of living in the United States, charted from 1917 to the present. The base used on this chart is 1921-38 = 100. This base, we believe, is the fairest period which can be used for this type of chart. It does include the boom years of the 1920's, but it also includes the depression years of the 1930's - 9 good years and 9 bad years. The fact that this base is correct is shown by the close grouping of most of the items of the cost of living during the entire period of the chart. The most favorable showing of all items of the cost of living is the cost of rent. At the present time this is 33.5% below the average of all items in the cost of living. In other words, rents have advanced only two-thirds as much as the average of the other items in the cost of living. This is the more significant when compared with the average

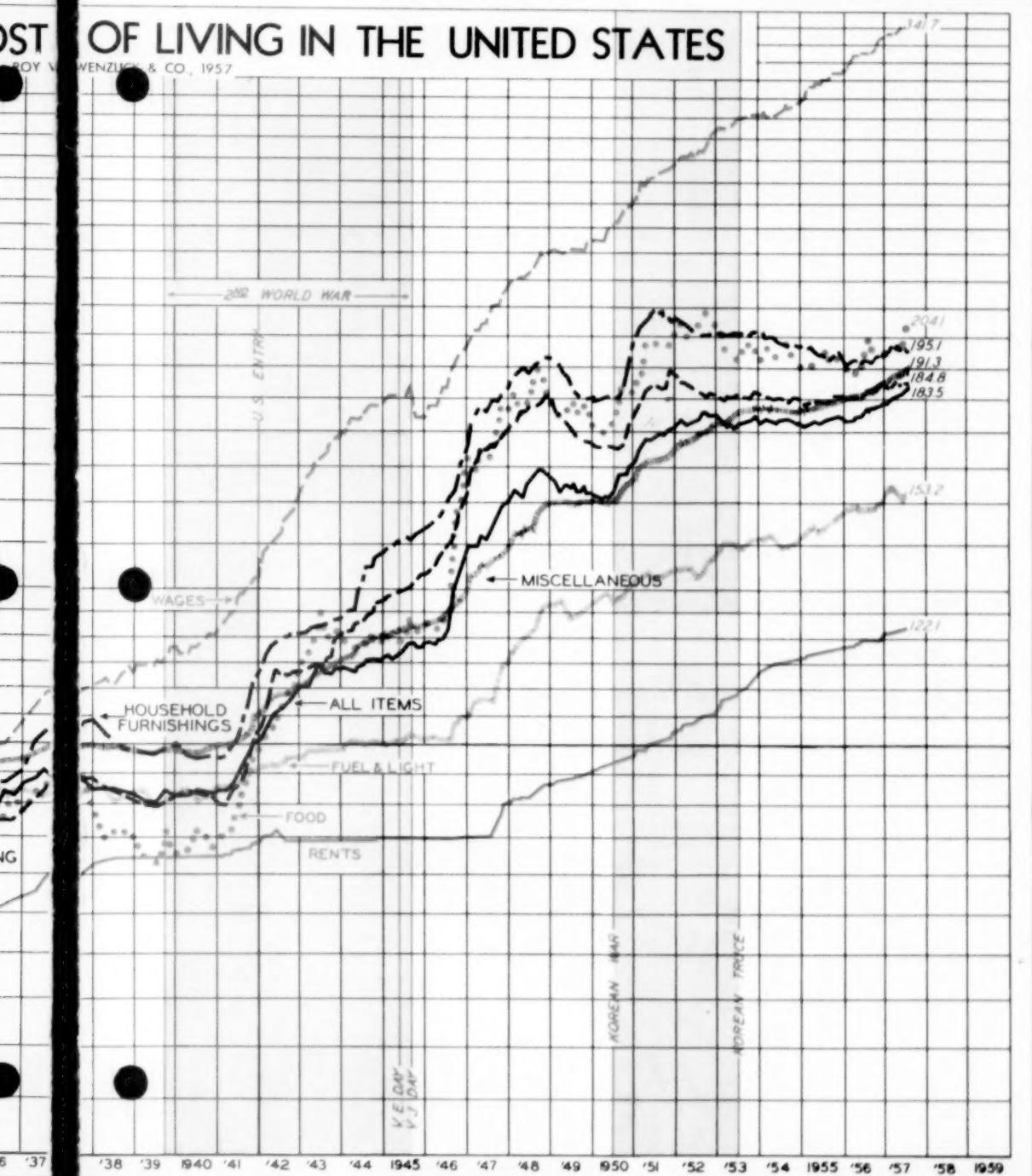
RENT, WAGES AND THE COST

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OST OF LIVING IN THE UNITED STATES

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wage line. Average wages, according to this study, have increased 86% more than the average cost of living, and 180% more than the average cost of rent.

As pointed out a number of times in these reports, residential rents in relationship to either the cost of living or to the selling price of housing, are very much below where we would normally expect them to be. The rapid increase which is expected in the rate of new family formation during the next few years should have the effect of causing rents to continue to rise, even in the face of some readjustment in the general real estate picture.

The table below shows the average interest rate of recorded mortgages in 12

AVERAGE INTEREST RATE OF RECORDED MORTGAGES IN 12 MAJOR CITIES OF THE UNITED STATES

Jan. '54	5.187%	Jan. '56	5.105%	May '57	5.486%
Apr. '54	5.173	Apr. '56	5.157	June '57	5.505
July '54	5.089	July '56	5.141	July '57	5.501
Oct. '54	5.092	Oct. '56	5.229	Aug. '57	5.515
Jan. '55	5.045	Jan. '57	5.363		
Apr. '55	5.079	Feb. '57	5.478		
July '55	5.050	Mar. '57	5.459		
Oct. '55	5.055	Apr. '57	5.507		



INCREASES IN BUILDING COSTS SINCE 1939

ST. LOUIS

September 1957



SIX-ROOM BRICK HOUSE (FRAME INTERIOR)*

Content: 23,100 cubic feet
1,520 square feet

Cost 1939: \$ 6,400
(27.7¢ per cubic foot; \$ 4.21 per square foot)
Cost today: \$18,992
(82.2¢ per cubic foot; \$12.49 per square foot)
INCREASE OVER 1939 = 196.8%

For plans and specifications see page 23 of the Wenzlick Building Cost Manual.



FIVE ROOM BRICK VENEER HOUSE*

Content: 24,910 cubic feet
1,165 square feet

Cost 1939: \$ 5,440
(21.8¢ per cubic foot; \$ 4.67 per square foot)
Cost today: \$16,447
(66.0¢ per cubic foot; \$14.12 per square foot)
INCREASE OVER 1939 = 202.3%

For plans and specifications see page 15 of the Wenzlick Building Cost Manual.



SIX-ROOM FRAME HOUSE*

Content: 24,288 cubic feet
1,650 square feet

Cost 1939: \$ 5,671
(23.4¢ per cubic foot; \$ 3.44 per square foot)
Cost today: \$18,321
(75.4¢ per cubic foot; \$11.10 per square foot)
INCREASE OVER 1939 = 223.1%

For plans and specifications see page 3 of the Wenzlick Building Cost Manual.

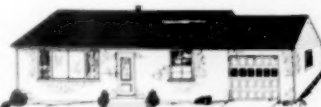


6-ROOM CALIFORNIA BUNGALOW - NO BASEMENT

Content: 12,119 cubic feet
992 square feet

Cost 1939: \$ 3,392
(28.0¢ per cubic foot; \$ 3.42 per square foot)
Cost today: \$10,601
(87.5¢ per cubic foot; \$10.69 per square foot)
INCREASE OVER 1939 = 212.0%

For plans and specifications see page 31 of the Wenzlick Building Cost Manual.



STANDARD BRICK RANCH HOUSE

Content: 16,250 cubic feet
840 square feet

Attached garage - 200 square feet
Without garage - \$12,742
(78.4¢ per cu. ft.; \$15.17 per sq. ft.)
Garage - \$951
(\$4.76 per sq. ft.)

For plans and specifications see page 52 of the Wenzlick Building Cost Manual.



CONTEMPORARY FRAME RANCH HOUSE

(Dry Wall)

Content: 12,285 cubic feet
1,170 square feet

Carport - 320 square feet
Without carport - \$13,129
(\$1.07 per cu. ft.; \$11.22 per sq. ft.)
Carport - \$614
(\$1.92 per sq. ft.)

For plans and specifications see page 41 of the Wenzlick Building Cost Manual.

*Costs include full basement.

major cities of the United States. It should be remembered that recorded rates lag slightly changes in actual rates, as commitments are made some time before a mortgage is recorded.

The average rate of 5.515 set a new high. In August of last year the average rate was 5.190, and in August 1955 it was 5.049. The average rate on recorded mortgages will probably continue to advance. The chart at the bottom of page 452 shows that money rates since 1952 on 91-day Treasury bills hit a high in September of 3.63, and they closed at 3.53. Since this comes closer to pure interest than any other line on the chart, the loading for risk, for lack of liquidity, and the management cost of keeping money invested, must be added to this basic rate in order to arrive at a mortgage interest rate. The rises experienced since 1954 in mortgage interest rates are not yet great enough to compensate for the changes in pure interest and, therefore, interest rates will probably continue to rise.

The tables on page 453 show the construction cost of six different single-family residences. The cost on each of these buildings has increased during the past month, and all of them are at new highs. While this is bad from the standpoint of the person desiring to build a house, and from the standpoint of the contractor as it reduces demand, it does have the advantage of stabilizing the market on existing buildings. Whenever the cost of constructing a building rises, there is a tendency for all useful buildings already built to take on a part of the increase.

The increases in building costs during the past few years are probably the reason for the strength in the market price for older houses. There is a strong probability that the values of existing buildings will not show any major downward trend so long as the cost of new building continues to rise.